

R 221147Z JAN 07
FM AMEMBASSY BERLIN
TO RUEHC/SECSTATE WASHDC 6731
INFO RUCNMEM/EU MEMBER STATES COLLECTIVE
RUCNFRG/FRG COLLECTIVE
RHEHAAA/THE WHITE HOUSE WASHDC

UNCLAS SECTION 01 OF 02 BERLIN 000121

SIPDIS

SENSITIVE
SIPDIS

EUR/AGS FOR O'KEEFFE, EUR/ERA FOR LCATIPON AND DLIPPEAT,
OES FOR WATSON & REIFSNYDER, THE WHITE HOUSE FOR CEQ

E.O. 12958: N/A

TAGS: [ENGR](#) [SENV](#) [PGOV](#) [PREL](#) [GM](#)

SUBJECT: GERMAN REACTION TO EUROPEAN COMMISSION'S ENERGY
PACKAGE

SENSITIVE BUT UNCLASSIFIED. NOT FOR INTERNET DISTRIBUTION.

11. (SBU) SUMMARY. On January 10, the European Commission unveiled its proposals for the EU's first common energy strategy, to be released in March. The German government's reaction was mixed. The Ministry of Economics criticized plans for "unbundling," i.e., the separation of energy generation from the distribution and supply systems. German energy companies complained that unbundling would lead to under-investment in energy infrastructure and could also open the way for foreign ownership (e.g., Russian) of strategic European energy networks. Chancellery officials have made this same point in discussions with Emboffs. In its Presidency role, Germany feels it must present the Commission's proposal to the other member states to see if there is consensus, but seems confident that others support the German view that unbundling and a European-wide regulator are unnecessary. However, the Environment Ministry praised the plan's call for significant cuts in greenhouse gas emissions targets and the goal of fostering clean energy technologies. END SUMMARY.

12. (U) The European Commission's energy package is the result of a year-long review of EU energy policy. It focuses on combating climate change, fostering new energy technology goals and increasing competition in European energy markets. The proposals lay the groundwork for the EU's first common energy policy. The EU heads of government are expected to approve most of the plan elements, or to offer alternative proposals, when they meet in March.

CRITICISM ON UNBUNDLING

13. (SBU) A major concern for Germany in Brussels is the Commission's proposal for a separation of energy generation from distribution and supply activities, i.e., "unbundling." The Economics Ministry is also resisting calls for a European-wide energy regulator. Economics Minister Michael Glos (CSU) said forcing German energy companies to divest themselves of strategic assets is questionable from a legal standpoint. While the Commission contends such a move would lead to more competition and lower prices, critics charge it could result in under investment and open the door for foreign ownership of European energy networks and infrastructure. One Chancellery official said under such a scheme, Gazprom or other Russian firms could pick up significant pieces at "firesale prices." This charge seems designed to exploit lingering energy security fears following the recent oil supply disruptions due to a conflict between Gazprom and Belarus.

14. (SBU) The Chancellery's Office Director for EU Economic Affairs, Andreas Hermes, reported on the outcome of an internal government meeting on the Commission's proposal,

held on January 18. Hermes said that while the government is opposed to the measure on unbundling, it believes that in its Presidency role it must present the proposal to the other member states in a neutral manner and see if there is consensus. Hermes said there are several other EU members states, in addition to Germany, who are opposed to this measure, so Germany can afford to remain in the background on this proposal. Hermes also stated that there appears to be little support among the member states (with the possible exception of the Netherlands) for a European-wide energy regulator.

15. (U) The head the world's largest private energy company, E.ON AG, Wulf Bernotat, sharply criticized the Commission's proposal. Bernotat called the different measures "conflicting and contradicting," and argued the unbundling proposal would not increase efficiency but would lead to supply disruptions. Bernotat believes the Commission should continue its policy of regulation to ensure competition in this market. He praised the work of the German regulator, BNetzA, claiming that no energy company has more than a 17 market share as evidence that no energy oligopoly exists in Germany. Bernotat also called the Commission's backing for an EU-wide energy regulator "premature." He said the EU should focus on creating a true internal market, first regionally and then Europe-wide. Only at that point should there be discussions over a European regulator.

16. (U) The German Electricity Association (VDEW) greeted the plan with more enthusiasm, calling it a "groundbreaking step towards a unified European energy policy." The VDEW lauded the Commission's desire to integrate security of supply, competition, and environmental concerns. However, like Bernotat, the VDEW also opposes the Commission's call for unbundling, stating it would lead to under investment in power stations and the energy grid by companies that would no longer have an interest in maintaining this infrastructure. The EU regulations currently require energy companies to create subsidiaries to administer their energy networks by July 2007. The VDEW believes the Commission should wait until this measure is implemented to evaluate whether it brings the necessary competition to the network.

PRAISE FOR THE CLIMATE CHANGE AGENDA

17. (SBU) Martin Schoepe, Deputy Director of the Office of International and EU Affairs at the German Environment Ministry, told ECONOFF that the most important part of the plan, from his ministry's perspective, is that it "frames climate change as the driver of European energy policy." The key elements for Germany, he said, are the EU-wide energy review and focused R&D funding for clean energy technologies such as carbon capture and sequestration (CCS). The plan specifies a goal of building 12 CCS demonstration plants by 2015; German energy companies have announced plans to develop two such plants.

18. (SBU) Schoepe noted Germany is recommending that the EU adopt a goal of lowering greenhouse gas emissions by 30% below 1990 levels by 2020. The German target would be more aggressive than the European Commission's, which calls for a reduction in greenhouse gas emissions of 20% below 1990 levels by 2020. Schoepe also wants the EU to set this emissions target of a 30% reduction from 1990 levels as a benchmark for all OECD members, including the U.S. The Council of Ministers will decide on the emissions reduction target on February 20 in Brussels.

19. (U) The German Renewable Energy Association (BEE), which represents solar and wind energy interests, considers the EC's Energy Policy Proposal for Europe too meager. The BEE has called on the German government to use their EU presidency to establish minimum levels of renewable energy use in the heating and electricity sectors and to push for an increase in the amount of renewable energy in the overall energy mix to 25% by 2020. The current plan does not set targets for specific energy sectors but states a general goal

of deriving 20% of energy from renewable sources by 2020.
TIMKEN JR